



Claire McCaskill

Missouri State Auditor

October 2006

Village of Butterfield, Missouri

Year Ended December 31, 2005



Office Of
Missouri State Auditor
Claire McCaskill

October 2006

The following findings were included in our audit report on the Village of Butterfield, Missouri.

The Village of Butterfield is in a declining financial condition as a result of overspending, inadequate oversight and monitoring by the Board of Trustees, numerous internal control weaknesses, and lax controls over expenditures.

The village prepares annual budgets; however, they are not complete and are not used to monitor the village's financial position. The board has not periodically compared budgeted vs. actual results, and actual expenditures exceeded budgeted amounts in several funds.

Procedures have not been established to ensure expenditures are properly allocated among the various funds benefiting from the expenditures and to ensure restricted revenues are expended only for their intended purpose.

The Village Clerk transferred \$12,000 during 2005, from the Water and Sewer Funds to the General Fund without the board's approval. The transfers were made to pay back a portion of the \$15,000 originally transferred to the Water and Sewer Funds to cover expenditures. There was no documentation indicating the amounts from the General Fund were to be treated as loans and there is no documentation of the board's approval for these transfers.

The Village Clerk is responsible for all record keeping duties of the village. There is no documentation the Village Chairman or other members of the Board of Trustees provide independent reviews of the work performed by the Village Clerk. Additionally, village checking accounts require two signatures on checks; however, nine checks for transfers of funds between accounts totaling \$17,207 were issued with only the Village Clerk's signature. Also, the village does not account for the numerical sequence of receipts and backup disks of the accounting information systems are not prepared and stored at a secure off-site location.

The village maintained 11 checking accounts as of December 31, 2005, and does not effectively monitor the bank account balances as there was \$48,499 in eight non-interest bearing accounts. Also, the village has not bid banking services and does not have a written agreement with its depository bank.

The village did not have a formal bidding policy until December 27, 2005. During the year ending December 31, 2005, bids were either not solicited or bid documentation was not retained for some purchases and adequate supporting documentation was not available

YELLOW SHEET

for 31 percent of expenditures reviewed. The Board of Trustees does not review and approve the payment of village expenditures prior to the disbursements being made, and complete mileage logs were not maintained for vehicles.

The village operates a water and sewer system that provides service to approximately 164 customers. The village's financial statements reported operating losses in 2004 through May 2005, then in June 2005 the Board of Trustees raised water and sewer rates by 114 percent. There was no documentation to support how the board calculated the significant rate increase. The rate increase generated operating gains between July and December 2005, at which time the board lowered sewer and water rates by 20 percent, again without documenting or performing a formal review.

The village does not perform monthly reconciliations of amounts billed, payments received, and amounts remaining unpaid for utility services including water, sewer and trash, and there is no supporting documentation or independent approval of credit adjustments made to utility accounts.

The Village Clerk collects and maintains a listing of deposits received with the amounts being deposited in the meter deposit account. As of May 31, 2006, the village's listing of meter deposits totaled \$7,170; however, the balance in the meter deposit account was only \$6,780, resulting in a \$390 difference.

Also included in the report are recommendations related to meetings and minutes, personnel policies and procedures, financial reporting, capital assets, and municipal court controls and procedures.

All reports are available on our website: www.auditor.mo.gov

VILLAGE OF BUTTERFIELD, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Chairman
and
Members of the Board of Trustees
Village of Butterfield, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Village of Butterfield, Missouri. The scope of our audit of the village included, but was not necessarily limited to, the year ended December 31, 2005. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the village, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide

reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the village's management and was not subjected to the procedures applied in the audit of the village.

The accompanying Management Advisory Report presents our findings arising from our audit of the Village of Butterfield, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

July 7, 2006 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
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	April McHaffie Lathrom, CPA
In-Charge Auditor:	Monte L. Davault

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

VILLAGE OF BUTTERFIELD, MISSOURI
MANAGEMENT ADVISORY REPORT
STATE AUDITOR'S FINDINGS

1.	Financial Condition
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The Village of Butterfield is in a declining financial condition as a result of overspending, inadequate oversight and monitoring by the Board of Trustees, numerous internal control weaknesses, and lax controls over expenditures.

The cash balance of the General and Street Fund account has been declining for the past four years as follows:

	Year Ended December 31,			
	2002	2003	2004	2005
Cash Balance, January 1	\$ 106,796	114,719	* 58,311	* 27,698
Receipts	35,474	39,816	64,007	67,200
Disbursements	27,551	99,255	94,720	77,084
Receipts Over/(Under)				
Disbursements	7,923	(59,439)	(30,713)	(9,884)
Cash Balance, December 31	\$ 114,719	55,280	27,598	17,814

* cash balance was adjusted by village's independent auditor

The village prepares annual budgets; however, these budgets are not used to monitor the village's financial position and the Board of Trustees has not periodically compared budgeted to actual receipts and disbursements (See MAR finding number 8). Also, the General and Street Fund operating expenses of the village increased significantly over the past few years, with most of the increase from the General Fund attributable to transfers to the Water and Sewer Funds to cover the cost of operations. Street funds were also used to purchase a backhoe which is primarily used for water and sewer activities. Receipts for the Street Fund are restricted and should not be used to pay for expenses of the Water and Sewer Funds (See MAR finding number 2).

Further, the village has experienced operating losses in the Water and Sewer Funds (See MAR finding number 5). As a result, the village has been unable to fully fund reserve accounts required by the bond covenants. For example, the bond covenants require \$304 a month be deposited into the Reserve account until a balance of \$36,480 is obtained and as of December 31, 2005, the balance in the reserve account was \$3,445. At December 31, 2005, \$5,979 was due to the Reserve account from the Sewer Fund. Also, village ordinance requires \$304 a month be deposited into the Depreciation and Replacement Account during the entire time bonds remain outstanding. Again, the village failed to make the required deposits during 2005 from the Water Fund.

The failure of the village to adequately maintain the required reserve accounts could allow the bondholders to take legal action to force compliance or immediate payment of the bond.

Inadequate procedures and internal control weaknesses have inhibited the board's ability to effectively monitor and manage the village and have resulted in, or contributed to the problems noted above (See MAR finding numbers 3 and 4). The Board of Trustees should review disbursements and reduce discretionary spending as much as possible.

The board must monitor the financial condition of the village and develop a long range plan which will allow the village to reduce its disbursements and/or increase receipts to operate the village within its available resources. The recommendations contained in the remaining MAR's, if implemented, will help the village establish procedures to operate within its available resources.

WE RECOMMEND the Board of Trustees develop a long term plan to operate within its available resources and properly fund the reserve accounts required by the bond covenants. In addition, the board must closely monitor the financial condition of the village by preparing a detailed operating budget and periodically comparing budgeted and actual receipts and disbursements.

AUDITEE'S RESPONSE

The Board of Trustees provided the following response:

We agree with the recommendation to periodically review actual to budget reports and plan to implement this on a quarterly basis. We would like to add that the chart makes it very clear that these financial problems coincided with the installation of the sewer system in 2003. While we regret some of the decisions made by the former Board of Trustees, the current board is dedicated to ensuring a balanced budget.

2. Restricted Revenues

Procedures have not been established to ensure expenditures are properly allocated among the various funds and to ensure restricted revenues are expended only for their intended purpose. In addition, board approval of fund transfers was not adequately documented.

- A. Procedures have not been established to ensure expenditures are properly allocated among the various funds benefiting from the expenditures and to ensure restricted revenues are expended only for their intended purpose. The village often used available funds as needed to pay bills with no consideration given to restricted monies. Some examples include:

- The village does not allocate employees' salaries based upon the work performed. For example, the Village Clerk indicated she performs duties for the General Fund, Sewer Fund, Water Fund, and Municipal Court Fund, however, her entire salary is allocated to the Water Fund. Further, a full-time maintenance employee's entire salary is allocated to the Sewer Fund even though he also performs duties for the Water and Street Funds.
- The Village Clerk indicated the backhoe leased by the village is primarily used for the water and sewer departments; however, the village paid \$6,690 from the Street Fund and only \$1,672 from each of the Water and Sewer Funds for the backhoe lease during 2005. In addition, the village purchased fuel for the backhoe totaling \$941 in November 2005, and the entire expenditure was paid from the Street Fund rather than being allocated among the funds benefiting from the expenditure. Street Fund revenues are restricted and should not be used to support the Water and Sewer Funds.
- The village pays for uniforms of the full-time maintenance worker, however, the cost of the uniforms is not allocated. From January 2005 through July 2006, the village paid uniform rental costs of \$1,592 entirely from the Sewer Fund even though the worker also performs duties for the Water and Street Funds.

The funds of the village are established as separate accounting entities to account for specific activities of the village. It is essential that the village properly allocate expenses to the various funds. Allocation of expenses is necessary for the village to ensure the water and sewer rates are sufficient to cover the costs of providing the service without generating profits to subsidize other village services. Furthermore, the uses of certain funds, such as state motor vehicle-related revenues, are limited by state law for specified purposes. Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street-related purposes including policing, signing, lighting, and cleaning of roads and streets. Also, documentation and proper allocation of expenses is useful for both management and compliance purposes.

- B. The Village Clerk transferred \$12,000 during 2005, from the Water and Sewer Funds to the General Fund without the board's approval. The transfers were made to the General Fund to pay back a portion of the \$15,000 originally transferred to the Water and Sewer Funds to cover expenditures. There was no documentation indicating the amounts from the General Fund were to be treated as loans and there is no documentation of the board's approval for these transfers.

The board needs to determine if the transfers from the General Fund to the Water and Sewer Funds represent a loan or a permanent transfer and adequately document its decision. Additionally, any interfund transfers should have prior approval of the board.

WE RECOMMEND the Board of Trustees:

- A. Ensure all expenditures are properly allocated to the applicable village funds and develop reasonable methods to allocate common costs between the village's funds.
- B. Ensure the board's approval is documented for all transfers of monies between the various funds.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *The city does allocate all employees' salaries to the appropriate fund, and always has. The auditor was told by the clerk that the various hours per employee have been calculated (that was the whole purpose of activity logs that break down by fund hours worked) and divided among funds so that only one check has to be written for each employee. This study was conducted in September of 2004 and September of 2005. A study is underway for September 2006. Results for September 2005 are as follows:*

City Clerk:

*General 14 hours/wk (34%)
Water 13 hours/wk (33%)
Sewer 13 hours/wk (33%)*

Wastewater superintendent:

*General 0.5 hours (1%)
Water 7.5 hours (19%)
Sewer 32 hours (80%)*

Water contractor:

Water 15 hours (100%)

Total:

*Water 35.5 hours/wk
Sewer 45 hours/wk
General 14.5 hours/wk
Total of 95.5 hours worked all funds*

The clerk and the wastewater superintendent are full time employees working 40 hours per week each. The water contractor is a subcontractor that works for the city 15 hours per week. We think this is a correct allocation to the applicable funds and respectfully disagree with the auditor regarding this aspect of the recommendation.

- B. *The board will pre-approve all transfers of money not deemed routine. There are routine transfers of money each month that the board is aware of and will not require pre-approval of these normal operating activities.*

AUDITOR'S COMMENT

- A. The village provided no detail to support the results of the study. Additionally, even with the percentages provided by the village, the Village Clerk's entire salary is paid from the water fund and the maintenance employee's entire salary is paid from the sewer fund.

3. Accounting Controls and Procedures
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Significant problems were identified in the control procedures used to account for transactions, including the lack of segregation of duties or an independent review of accounting records. In addition, the numerical sequence of receipts was not accounted for, some checks were issued with only one signature and bank account balances were not adequately monitored. Further, the village maintained an excessive number of bank accounts and village funds were maintained in non-interest bearing accounts.

- A. Accounting duties are not adequately segregated. The Village Clerk is responsible for all record keeping duties of the village including receiving and depositing all receipts, preparing utility bills, posting adjustments, generating shut-off notices, maintaining payroll records, reviewing invoices, preparing and distributing checks, recording receipts and disbursements and preparing monthly financial reports and bank reconciliations. There is no documentation the Village Chairman or other members of the Board of Trustees provide independent reviews of the work performed by the Village Clerk. To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing monies from preparing checks and performing bank reconciliations. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent review of the accounting records maintained.
- B. The village does not account for the numerical sequence of receipts. Manual receipt documents are not sequentially numbered and while the computerized system does assign transaction numbers these transaction numbers are not used by the Village Clerk to ensure all receipts are deposited. Also, transaction numbers can be deleted by the user leaving no method of accounting for the transaction. Numerous instances were found on the village's transaction reports where transaction numbers were missing. Given manual receipt documents are not sequentially numbered and transactions numbers can be deleted in the computerized accounting system, the village has no assurance that all receipts are properly accounted for. Issuing and accounting for the numerical sequence of receipts is necessary to ensure proper recording and accountability of all receipts.
- C. Village checks require two signatures, the Chairman and the Village Clerk; however, we noted nine checks for transfers of funds between accounts totaling

\$17,207 issued with only the Village Clerk's signature. The dual signatures help provide assurance that checks represent payments for legitimate village expenditures. In addition, the Chairman is not bonded. Failure to adequately bond village employees that handle monies exposes the village to the risk of loss.

- D. The village does not effectively monitor the bank account balances. In March 2005, the sewer revenue account was overdrawn by \$2,592 resulting in bank charges totaling \$25 being assessed to the account. The village should more closely monitor bank account balances to ensure sufficient funds are available for expenditures and to minimize additional bank charges.
- E. The village has not bid banking services and does not have a written agreement with its depository bank. There was no documentation indicating the village bid for banking services and there was no written agreement with the depository bank.

To ensure the quality of banking services and ensure interest earnings received are maximized, the village should procure its banking services through a competitive bid process. In addition, the village should enter into a written agreement with its depository bank.

- F. The village maintained 11 checking accounts as of December 31, 2005. Except for separate accounts required by bond covenants, it appears that the remaining checking accounts could be consolidated to help simplify the village's records and reduce the number of accounts that must be monitored and controlled.

In addition, the village maintains substantial funds in non-interest bearing accounts. The village had \$48,499 in eight non-interest bearing checking accounts at December 31, 2005. The failure to have funds in interest-bearing accounts results in the loss of revenues. To maximize interest earnings, all allowable funds should be placed in interest-bearing accounts.

- G. Backup disks of the accounting information systems are not prepared and stored at a secure off-site location. The Village Clerk indicated due to computer problems, she has been unable to prepare backup disks for approximately one year. Preparation of backup disks, preferably on a daily or at least weekly basis, along with off-site storage, would provide increased assurance that village data could be recreated if necessary.

WE RECOMMEND the Board of Trustees:

- A. Provide for an adequate segregation of duties or the performance of independent reviews of the accounting records.
- B. Ensure the numerical sequence of receipts is accounted for properly.

- C. Ensure that all checks have the required number of signatures and all employees authorized to sign checks are appropriately bonded.
- D. Ensure procedures are in place to effectively monitor bank account balances and to eliminate bank overdraft charges.
- E. Seek competitive bids for its banking services on a periodic basis and enter into a written agreement with the depository bank.
- F. Consider consolidating monies into fewer bank accounts, and maintain village funds in interest bearing accounts when possible.
- G. Prepare backup disks and ensure backup disks are stored in a secure, off-site location.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *The work performed by the city clerk is evaluated each year by an independent auditor. As for the segregation of duties, the board will begin reviewing bank statements at each meeting along with financial reports.*
- B. *We agree with this finding and will make every effort to implement a new receipt system as soon as possible.*
- C. *We would like to make this point very clear for the public. All checks with only one signature are transfers of money from one account to another. No check found by the audit lacking two signatures was a disbursement for an expense. The city clerk no longer makes transfers without the mayor's signature. This recommendation has already been resolved.*
- D. *We agree with this recommendation and have already taken steps to ensure proper oversight of all accounts.*
- E. *We find this recommendation to be accurate. We plan to address this matter as soon as possible.*
- F. *We do not feel this additional work is a burden to the clerk based on her opinion. We also want to keep all accounts separate to ensure that the public and the board are able to clearly understand all financial reporting and ensure that funds being held for specific purposes are only used for that purpose.*
- G. *In 2006 the computer backup system broke. We had our computer system repaired six weeks ago and plan to implement this recommendation.*

Controls and procedures over village expenditures are in need of improvement. Bids were not always solicited for major purchases and the board does not approve expenditures prior to payment of invoices. Adequate documentation was not retained for some expenditures, receipt of goods was not always documented, and mileage or usage logs for vehicles and equipment are not maintained.

- A. A formal bidding policy was not adopted by the village until December 27, 2005. As a result, the decision of whether to solicit bids for a particular purchase was made on an item-by-item basis. During the year ending December 31, 2005, bids were either not solicited or bid documentation was not retained for most purchases. Examples include \$16,000 for a water pump and repairs, \$8,753 for a sewer pump, \$6,000 for a used truck, \$5,712 for property, liability and auto insurance, and \$3,688 for fuel.

Bidding procedures for purchases provide a framework for economical management of village resources and help ensure the village receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the village's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. The Board of Trustees does not review and approve the payment of village expenditures prior to the disbursements being made. A financial report is prepared monthly by the Village Clerk which includes a listing of all expenditures by fund; however, the information represents the preceding month's activities.

Expenditures made from village funds should be reviewed and approved by the Board of Trustees before payment is made to ensure all disbursements represent valid operating costs of the village. In addition, to adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the trustees to denote their approval, and retained with the official minutes.

- C. Adequate supporting documentation was not available for 10 of 32 expenditures reviewed. Examples include, settlement of a lawsuit (\$2,500), fuel (\$506), and uniform rentals (\$106) for which detailed documentation of each purchase was not retained. For example, payment for the lawsuit settlement was based upon verbal information provided by the village's attorney. All expenditures should be supported by a vendor invoice to ensure the obligation was actually incurred and the expenditure represents an appropriate use of public funds.

- D. The village has not established procedures to ensure goods or services were received or properly ordered. In one instance, this resulted in the village paying \$1,670 during 2005 for treatment chemicals that were never ordered. Eight payments were made between February and August. This situation occurred when the village maintenance worker agreed to sample a company's treatment chemicals and the company continued to send chemicals to the pump station and bill the village for the chemicals, even though the village had not ordered the chemicals.

In another example, the village paid \$500 in 2005 to Missouri Southern State College for 40 hours of training for the village's police officer. The village did not require the police officer to provide documentation of the training completed. We obtained documentation from the college that showed only 25 hours of training had been attended. The documentation of the receipt of goods or services is necessary to ensure the village actually ordered and received the items being paid.

- E. The village does not maintain complete mileage logs for vehicles or any usage logs for equipment owned by the village; thus a reconciliation of fuel purchased to miles driven cannot be performed. The village maintains a police car, maintenance truck, and backhoe, and expended approximately \$3,600 in fuel costs during the year ending December 31, 2005. Complete mileage and usage logs are necessary to document appropriate use of the vehicles and equipment and to support fuel and other charges. The mileage and usage logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by the Board of Trustees to ensure vehicles and equipment are used only for village business, are being properly utilized, and help identify vehicles and equipment which should be replaced or sold. Information on the logs should be periodically reconciled to fuel purchases and other maintenance charges.

WE RECOMMEND the Board of Trustees:

- A. Ensure bids are solicited for major purchases and applicable bid documentation is retained.
- B. Review and approve all expenditures of village funds prior to the disbursements being made.
- C. Require adequate supporting documentation prior to approving expenditures for payment.
- D. Ensure the receipt of goods or services is indicated on invoices prior to approving them for payment.

- E. Maintain complete mileage and usage logs for all village vehicles and equipment. In addition, fuel purchases should be recorded to the log and periodically reconciled to applicable expenditure records.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *We agree to comply with our current city code regarding procurement.*
- B. *We agree to have all expenses pre-approved that are not normal operating expenses approved by the annual budget.*
- C. *The mayor and clerk will require detailed documentation before signing payments for expenses.*
- D. *The mayor and clerk will require detailed documentation before signing payments for expenses.*
- E. *While the city did keep mileage logs on vehicles owned, there were some incomplete records. We will make every effort to ensure mileage and usage logs are complete and periodically reconcile these to fuel purchases.*

5. Water and Sewer System Procedures

Significant problems were identified in the control procedures and policies used by the village related to the water and sewer system. The village has not performed a formal review of the water and sewer rates and does not perform monthly reconciliations of total amounts billed, payments received, and amounts remaining unpaid for water, sewer and trash. In addition, there is no independent approval of adjustments posted to the utility accounts and service is not always shut-off in accordance with the village ordinance when customer accounts are delinquent.

The village operates a water and sewer system that provides service to approximately 164 customers. The Village Clerk is responsible for billing, collecting and posting payments to the accounting software as well as making credit adjustments and reconciling the water and sewer bank accounts. The sewer and water employees are responsible for reading customer's meters and the meters at the village's wells, as well as performing maintenance on the system and connecting/disconnecting customer's water and sewer lines.

- A. The village has not performed a formal review of the adequacy of the water and sewer rates. The village's financial statements reported operating losses in 2004 and the losses continued through May 2005, then in June 2005 the Board of Trustees raised water and sewer rates by 114 percent. Although board minutes

reflect financial reports were reviewed by the Board of Trustees, there is no documentation to support how the board calculated the significant rate increase. The rate increase generated operating gains between July and December 2005, at which time the board lowered sewer and water rates by 20 percent, again without documenting or performing a formal review. The village has not determined if the new rates are adequate and according to village financial reports, the water and sewer funds had an operating losses for the six months ending June 30, 2006.

Water and sewer fees are user charges which should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. The village should perform a detailed review of its water and sewer costs, including depreciation and debt service costs, and set rates to cover the total costs of operation. In addition, the village should document their justification for setting the rates for utilities.

- B. The village does not perform monthly reconciliations of amounts billed, payments received, and amounts remaining unpaid for utility services including water, sewer and trash. On the 25th of the month, meter readings are manually recorded by a maintenance worker. The Village Clerk then utilizes a computerized system to generate billing statements and then mails the statements. The clerk then uses a separate computerized system to receive and record payments. A delinquent listing is not generated and there is no comparison of amounts billed to payments received.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis.

- C. There is no supporting documentation or independent approval of credit adjustments made to utility accounts. Some adjustments may be necessary to correct inaccurate billings, however, the Village Clerk has the ability and authority to record credit adjustments to the computer system without documenting each adjustment or obtaining the approval of anyone else.

To ensure that all credit adjustments are valid and properly approved, someone independent of receipting and recording functions should review all credit adjustments and proper supporting documentation should be maintained of such adjustments.

- D. Water and sewer service is not always shut-off in accordance with the village policy when customer accounts are delinquent. The Village Clerk will send a shut-off notice if the bill is not paid by the first of the month following the month in which the bill was rendered indicating service will be disconnected in seven days. We noted instances where utilities were not disconnected as provided by the village policy even though customers may have accumulated delinquent balances. Some people were allowed to make payments to satisfy their debt.

To reduce delinquencies, ensure delinquent accounts are properly handled, and ensure equitable treatment of all customers, the village should enforce their policy regarding shut-off procedures in accordance with village policy.

- E. Village residents are required to pay a refundable deposit for water and sewer service. The Village Clerk collects and maintains a listing of deposits received with the amounts being deposited in the meter deposit account. Currently, the village collects a deposit ranging from \$75 to \$150 based on the type of residence; however, varying amounts have been collected in the past. As of May 31, 2006, the village's listing of meter deposits totaled \$7,170; however, the balance in the meter deposit account was only \$6,780, resulting in a \$390 difference.

Adequate records of sewer and water deposits are necessary to ensure all village residents have paid a deposit and the village only refunds deposits to residents that have actually paid. The village needs to identify the amount of the deposit held for each customer and update the permanent record of this information. In addition, the detailed listing of customer deposits should be periodically reconciled with monies in the account. Without such reconciliations, the possibility of undetected errors is increased.

WE RECOMMEND the Board of Trustees:

- A. Perform a review of water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing this service. In addition, retain documentation to support the board's justification for changes made to utility rates.
- B. Ensure monthly reconciliations of the amounts billed to amounts collected and delinquent accounts are performed.
- C. Require someone independent of the utility system to review and approve all credit adjustments and ensure adequate documentation is retained of such adjustments.
- D. Ensure water is shut-off in accordance with village policy when accounts are delinquent.
- E. Identify all meter deposits held by the village and periodically reconcile these deposits to the meter deposit bank account.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *We agree with the recommendation that a rate study needs to be done and will consider how to accomplish this with our limited financial resources. We would like to comment*

that the “operating gains” and “excessive fund balances” referred to were not undesignated profits. They were revenues designated to repay loans borrowed to subsidize the water and sewer accounts.

- B. The city does calculate on a monthly basis amounts billed, payments received and amounts that are unpaid from the previous month, however, these totals are not reconciled due to our current billing program. We will continue to research the issue and, if a viable solution is found, we will implement it.*
- C. We agree with this finding. We plan to implement a policy where customers with leaks must fill out a form and sign it attesting to the fact that there was a leak before a credit can be made to their sewer bill. These forms will then be submitted to the city council for oversight. We do not think it prudent to require council approval prior to credits being made due to the fact that we hold meetings once a month and this could cause people waiting for a decision to become delinquent on their account and lead to a lack of customer satisfaction with our service.*
- D. During the period in which the audit was conducted, the city’s policy was to allow people to make payment arrangements if they were unable to pay their accounts on time. As long as those arrangements were kept, the customer was not shut off. Since July of 2006 this policy has changed. We now require shut off 45 days after invoice date. There is one instance in which the customer has been allowed to continue making payment arrangements in accordance with former policy. We will re-evaluate this one case and make a final decision.*
- E. The meter deposit account is reconciled to meter deposits held annually by our city auditor. We will consider changing this policy to reconciling on a quarterly basis.*

6. Minutes and Meetings

Board minutes were not always signed and closed session minutes were not maintained in accordance with state law. In addition, the village has not adopted ordinances to establish compensation of village officials and employees.

- A. Board minutes were prepared and signed by the Village Clerk, but the minutes were not signed by the Chairman of the Board of Trustees. The board minutes should be signed by the Chairman upon approval to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.*
- B. The board did not maintain minutes to document matters discussed in closed meetings. The board frequently held closed session meetings and while the open meeting minutes disclosed the reasons for entering closed session, minutes were not maintained for the closed portion of the meeting. As a result, it is not known whether the final disposition of the board's decisions was made public.*

Minutes constitute the record of proceedings of the board. Failure to maintain minutes results in an inadequate record of village transactions, proceedings, and decisions. In addition, minutes help show that the closed discussions or business related to the specific reason announced for closing the meeting pursuant to the Sunshine Law, Chapter 610, RSMo. Effective August 28, 2004, Section 610.020, RSMo, provides that minutes of closed meetings should be prepared and retained.

- C. The village has not adopted ordinances to establish the compensation of the village's officials and employees. For example, the compensation of the Village Clerk, the Village Prosecuting Attorney, and the Municipal Judge are not set by ordinance. To avoid misunderstandings, the board should adopt ordinances which specify the compensation of all village officials and employees.

WE RECOMMEND the Board of Trustees:

- A. Ensure board minutes are properly signed to attest to their accuracy.
- B. Ensure minutes are prepared for all closed meetings, and the final disposition of applicable matters discussed at closed meetings is made public.
- C. Establish by ordinance the salary or pay rates for all officials and employees.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *While there are no state laws or any other legal requirements for the mayor to sign minutes, we will consider implementing this recommendation.*
- B. *We respectfully disagree with the finding that no closed session minutes are kept. We do not have a closed record file because we have never required one. All closed session minutes are kept with open session minutes and released immediately as open public record.*
- C. *The city officials and employees compensation is set by ordinance via the annual budget. We will consider adopting separate ordinances to set official/employee compensation in an effort to make this matter clearer to the public.*

AUDITOR'S COMMENT

- B. Minutes of closed session discussions or business help to show the village held the closed meeting pursuant to Sunshine Law, Chapter 610, RSMo.

7.**Personnel Policies and Procedures**

The village has not adopted a formalized personnel policy and employees were allowed to take annual and personal leave beyond the accumulated balance.

- A. The village has not prepared a formal written personnel policy to address issues such as vacation and personal leave, overtime and compensatory time, regular work hours, hiring and firing procedures, and use of village vehicles.

A comprehensive personnel policy manual would provide guidance and control to ensure equitable treatment among employees, and the avoidance of misunderstandings.

- B. The village allowed one employee to take annual and personal leave beyond his accumulated balance. In April 2006, this employee had used 97 hours of leave that had not yet been earned. Employees should not be granted leave in excess of their accumulated leave balance. Should employees require leave in excess of their balances, it appears the employee should be placed on leave-without-pay status.

WE RECOMMEND the Board of Trustees:

- A. Prepare and maintain a personnel policy manual to provide documentation of the village's procedures and policies for all village employees.
- B. Ensure leave time is not taken in excess of the leave accrued.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *While the city has in the past worked on preparing a formal written personnel policy, this task was never completed. The city will make every attempt to finish this project as soon as possible.*
- B. *We agree with this recommendation and will take this matter under advisement.*

8.**Budgets and Financial Reporting**

Actual expenditures exceeded budgeted amounts and budgets did not include some of the required information. In addition, an annual maintenance plan for village streets has not been prepared, semi-annual financial statements were not published or publicly posted, and financial statements were not filed with the State Auditor's Office in accordance with state law.

- A. The Board of Trustees did not adequately monitor budget and actual expenditures, and as a result, actual expenditures exceeded the budgeted amounts in various funds as follows:

Fund	Year ended December 31,	
	2005	2004
General	\$ 13,341	33,810
Water	19,200	17,654
Sewer	13,804	13,003
Reserve for Standpipe	4,213	N/A
Meter Deposits	4,093	N/A
Sewer Bond Reserve	2,000	N/A
Municipal Court	540	1,383
Court Bond	306	N/A
Total	\$ 57,497	65,850

The board does not receive any monthly information on budget to actual activity and was apparently not aware of these excess expenditures and did not amend the village's budgets.

Section 67.040, RSMo, indicates a political subdivision shall not increase the total amount authorized for disbursement from any fund, unless the governing body adopts a resolution documenting the reasons making the increase necessary and approves or adopts a resolution or ordinance to authorize the disbursements.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and receipt expectations for each area of the village operations and provide a means to effectively monitor actual costs and receipts. It will also assist in informing the public about the village's operations and current finances.

- B. The village's annual budgets are in need of improvement. The 2006 and 2005 budgets did not include actual receipts and disbursements from the two previous years and did not include a budget message.

Sections 67.010 through 67.040 RSMo, set specific guidelines as to the format of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of village operations. A complete budget should include separate revenue and expenditure estimations, the beginning available resources, and reasonable estimates of the ending available resources. The budget should also include a budget message, and comparisons of actual revenues and expenditures for the two preceding years.

- C. An annual maintenance plan for village streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget

and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the village residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

- D. The village has not published semi-annual financial statements as required by state law. Although the village published financial statements for July through December 2005, financial statements were not published prior to this date. Further, as of August 2006, the semi-annual financial statement for January through June 2006 had not been published.

Section 80.210, RSMo requires the Chairman of the Board of Trustees prepare and publish semi-annual financial statements in a local newspaper or post semi-annual financial statements in six public places within the village. In addition, Section 80.220, RSMo, states that the village can be fined if the chairman neglects to publish such statements.

- E. The village did not submit annual financial reports or audited financial statements to the State Auditor's Office for 2005 or 2004, as required by state law. Section 105.145, RSMo, requires the village to file annual financial reports with the State Auditor's office. The financial reports are to be filed within four months after the end of the village's fiscal year (the requirement is six months after the end of the fiscal year if an audit report prepared by a certified public accountant is filed).

WE RECOMMEND the Board of Trustees:

- A. Periodically compare actual revenues and expenditures with budgeted amounts and ensure actual expenditures are kept within budgetary limits. If it appears expenditures are going to exceed budgeted amounts, a budget revision should be prepared.
- B. Prepare complete annual budget documents that include all relevant information required by state law.
- C. Prepare a formal maintenance plan for village streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

- D. Ensure semi-annual financial statements are published or posted in accordance with state law.
- E. Ensure the annual financial reports are prepared and submitted to the State Auditor's office as required by statute.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *We agree with this recommendation and will take it under advisement.*
- B. *We agree with this recommendation and will take steps to improve future budgets.*
- C. *While there is no legal requirement for a street plan, we do agree to include a plan in the budget message section of future budgets.*
- D. *We will take steps to remedy this matter.*
- E. *We were not aware of this requirement and will take steps to remedy this situation.*

9. Capital Assets

The village does not maintain complete and current records for its capital assets, including land, buildings, equipment and furniture. In addition, property is not tagged for specific identification and an annual physical inventory is not performed. Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the assets including the name, make and model numbers, asset identification numbers, the physical location of the assets, and the date and method of disposition of the assets. In addition, all property items should be identified with a tag or other similar device, and the village should conduct annual inventories.

Adequate general capital asset records are necessary to secure better internal controls and safeguard village assets which are susceptible to loss, theft, or misuse, and provide a basis for determining proper insurance coverage required on village property.

WE RECOMMEND the Board of Trustees ensure property records are maintained which include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. The village should also properly tag, number, or otherwise identify all applicable village property and conduct an annual inventory.

AUDITEE'S RESPONSE

The Board of Trustees provided the following response:

We agree with this finding and will give the matter consideration.

10. Municipal Court Controls and Procedures
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Many significant problems were identified in the control procedures used by the municipal court to account for court receipts, including the lack of proper segregation of duties or an independent review of accounting records. In addition, monthly listings of open items (liabilities) were not prepared, some checks lacked the required signatures, a monthly listing of cases heard is not filed with the village, the numerical sequence of citations issued/ordered is not maintained, the Municipal Judge does not sign the court dockets, and the court did not disburse fees to the state timely. The village collected fines and court costs of approximately \$4,300 during the year ended December 31, 2005.

- A. The duties of receiving, recording, depositing, disbursing, and reconciling court receipts are not adequately segregated. Currently, the Court Clerk performs all of these duties. Neither the Municipal Judge nor other personnel independent of the cash custody and record-keeping functions provide any supervision or review of the work performed by the Court Clerk.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing court monies from that of recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the bank reconciliations and the reconciliations between receipts and deposits.

- B. Monthly listings of open items (liabilities) for the bond account are not prepared and reconciled to the available cash balance. As a result, the municipal court could not ensure the amounts being held were sufficient to cover the liabilities. In September 2005, the court clerk transferred \$600 of unidentified bond monies to the village account as unclaimed fees. Further, the bond bank account had an unidentified balance of \$270 at December 31, 2005. In addition, court checks require two signatures, the Judge and the Court Clerk; however, the checks transferring these funds did not have the Judge's signature.

A monthly listing of open items is necessary to ensure accountability over open cases and to ensure monies held in trust by the municipal court are sufficient to meet liabilities. Also, for unidentified bond monies, an attempt should be made to determine the proper disposition of these monies. A review should be made of any bonds posted by persons who failed to make the required court appearance to

determine if the bonds should be forfeited and monies paid over to the village treasury as provided by Section 479.210, RSMo. For those bonds which relate to closed cases, Sections 447.500 through 447.595, RSMo, which relate to unclaimed property, should be used to disburse these monies. In addition, dual signatures help provide assurance that checks represent payments for legitimate court expenditures.

- C. The Court Clerk does not file a monthly report of all cases heard with the village. Section 479.080.3, RSMo, requires the Court Clerk to prepare a monthly listing of all cases heard in court, including fines and court costs collected, to be verified by the Court Clerk or Municipal Judge and filed with the village.
- D. Neither the police department nor the municipal division maintains adequate records to account for the numerical sequence and ultimate disposition of all traffic tickets issued. A log is not maintained to account for the traffic tickets assigned to officers and traffic tickets issued to violators. Of eighteen tickets selected to review, ten tickets (56 percent) could not be located by the court or the police department.

Without a proper accounting for the numerical sequence and ultimate disposition of tickets, the police department and the municipal division cannot be assured all tickets issued are properly submitted to the court for processing. A log listing the traffic ticket books assigned, each traffic ticket number, the date issued, and the violator's name would ensure all tickets issued were submitted to the court for processing, properly voided, or not prosecuted. A record of the ultimate disposition of each ticket should also be maintained to ensure all traffic tickets have been accounted for properly.

- E. The Municipal Judge does not sign the dockets and dispositions are not always recorded. The Municipal Judge has not reviewed and signed the court dockets since December 2005. Also, in three of nine court cases reviewed, the court dockets did not indicate the final case disposition. To ensure the proper disposition of all cases has been entered in the court records, the Municipal Judge should ensure the court docket is adequately maintained, review each court docket and sign the docket or indicate approval of the recorded disposition.
- F. Court costs are not disbursed monthly as required by statute. Court costs including, Crime Victim's Compensation (CVC) and Police Officer Standards and Training Commission (POSTC), for the months of June 2005 to February 2006 were held in the court bank account and not disbursed to the state until February 2006.

Section 595.045., RSMo, requires 95 percent of the CVC fees be paid monthly to the state. POSTC fees should also be disbursed monthly to the state.

WE RECOMMEND the Board of Trustees:

- A. Adequately segregate the duties of receiving, recording, and depositing court receipts. At a minimum, establish a documented periodic review of municipal court records by an independent person which includes reconciling the composition of court receipts to the composition of deposits to the village.
- B. Prepare monthly listings of open items and reconcile the listing to the monies held by the municipal court. Also, follow up on all bonds held for more than one year, and dispose of bonds in accordance with state law. In addition, ensure that all checks have the required number of signatures.
- C. Prepare monthly reports of cases heard in court and file these with the village in accordance with state law.
- D. Ensure records are maintained to account for the numerical sequence and ultimate disposition of all tickets issued.
- E. Ensure the court dockets include final disposition for all cases. In addition, require the Municipal Judge to review and sign all court dockets to indicate the approval of all recorded dispositions.
- F. Ensure court costs are transmitted to the state at least monthly.

AUDITEE'S RESPONSE

The Board of Trustees and Municipal Judge provided the following responses:

- A. *The city court is audited on an annual basis. The judge receives financial reports monthly. We will, however, consider the recommendation regarding monthly reviews of bank statements, etc., to be performed by the judge.*
- B. *We agree with this recommendation and will take the matter under advisement.*
- C. *Monthly reports will be filed with the city council and the city clerk in the future.*
- D. *Once this issue was brought to the city administrations attention, an inventory was developed and has been kept ever since June 22, 2006. We regret that previous officers were so careless with their record keeping and citation books but feel that we have taken steps to remedy this situation from occurring in the future.*
- E. *We partially agree with this finding. The municipal court judge has prepared all case disposition sheets since April of 2006. The city will make sure the judge is aware that he needs to sign all docket sheets.*

F. Since February of 2006 court cost have been remitted on a regular basis. The court will continue to strive for compliance on this issue.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

VILLAGE OF BUTTERFIELD, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Village of Butterfield is located in Barry County. The village was incorporated in 1966. The population of the village in 2000 was 397. The village elected to become a fourth class city in the November 2005 election.

The village government consists of a five member board of trustees. The members are elected for 2-year terms. The chairman is appointed by the board members. The Board of Trustees, and other officials during the year ended December 31, 2005, are identified below. The Board of Trustees received no compensation.

Board of Trustees	Dates of Service During the Year Ended December 31, 2005	
Louis Shultz, Chairman (1)	April 2005 to December 2005	
Jim Dunivant, Chairman	January 2005 to April 2005	
Tony Cope, Trustee (2)	April 2005 to December 2005	
Louis Shultz, Trustee	January 2005 to April 2005	
Kendal Christiansen, Trustee (1)(3)	January 2005 to December 2005	
Frances Hobbs, Trustee (4)	September 2005 to December 2005	
Jean Schoelzel-Geer, Trustee(5)	April 2005 to July 2005	
Steve Fisher, Trustee (6)	January 2005 to February 2005	
Don Roberts, Trustee (1)	September 2005 to December 2005	
Adam Wells, Trustee	April 2005 to September 2005	
Carrol Hayes, Trustee	January 2005 to April 2005	
Other Principal Officials and Employees	Dates of Service During the Year Ended December 31, 2005	Compensation Paid for the Year Ended December 31, 2005
Georgia Wenell, Village Clerk/Court Clerk	January 2005 to December 2005	\$ 21,050
Andrew Hager, Jr., Municipal Judge	October 2005 to December 2005	300
Dale Burke, Municipal Judge	January 2005 to October 2005	450
Don Trotter, Village Attorney and Prosecutor	April 2005 to December 2005	530
David Cole, Village Attorney and Prosecutor	January 2005 to April 2005	317

- (1) Effective January 1, 2006, the voters elected fourth class city classification. These trustees were replaced by Gary Florer, East Ward Alderman, Carrol Hayes, East Ward Alderman; and Rowena Higgs, West Ward Alderman in the April 2006 election.
- (2) Elected to Mayor in April 2006.
- (3) Kendal Christiansen resigned effective February 1, 2006.
- (4) Elected to West Ward Alderman in April 2006
- (5) Position was vacant until Frances Hobbs was appointed in September 2005.
- (6) Position vacant until Jean Schoelzel-Geer was appointed in April 2005.

In addition to the officials identified above, the village employed one full-time employee on December 31, 2005.

Assessed valuations and tax rates for 2005 were as follows:

ASSESSED VALUATIONS

Real estate	\$	1,127,903
Personal property		<u>255,633</u>
Total	\$	<u><u>1,383,536</u></u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

		<u>Rate</u>
General Fund	\$	<u>0.4665</u>

A summary of the village's financial activity for the year ended December 31, 2005, is presented on the next page.

Financial Activity for the Year Ended December 31, 2005

	General & Street Fund	Water Fund	Meter Deposits Fund	Reserve for Standpipe Fund	Sewer Fund	Sewer Bond Reserve Fund	Sewer Replacement Fund	Municipal Court Fund	Court Bond Fund	Heritage Festival Fund	Total
RECEIPTS											
Property and Franchise taxes	\$ 5,640										5,640
Intergovernmental	16,418										16,418
Licenses, fees and permits	11,478										11,478
Charges for services	16,929	60,165			78,332						155,426
Meter deposits			5,100								5,100
Fines and penalties								3,894			3,894
Bonds									400		400
Other	5,235			40		7	7			60	5,349
Transfers in	11,500	16,213			22,000	3,000	3,000				55,713
Total Receipts	67,200	76,378	5,100	40	100,332	3,007	3,007	3,894	400	60	259,418
DISBURSEMENTS											
Accounting and auditing	2,714	4,381									7,095
Bank charges	1,575	180			357						2,112
Contract labor		6,361			32						6,393
Employee medical insurance					1,365						1,365
Equipment	2,715	2,572			9,761						15,048
Fire department and police	8,516										8,516
Insurance	8,043	84			400						8,527
Bond and loan payments		2,460			35,808						38,268
Other	3,961	5,661	1,607		2,474			313			14,016
Payroll	715	22,883			23,081			1,280			47,959
Refunds			3,036						956		3,992
Street	12,218										12,218
Supplies	1,737	8,872			6,663			597			17,869
Trash collection	15,862										15,862
Travel	550	1,927			304						2,781
Utilities	3,478	5,436			3,069						11,983
Transfers out	15,000	5,000		19,213	11,000	2,000	2,000	1,500			55,713
Total Disbursements	77,084	65,817	4,643	19,213	94,314	2,000	2,000	3,690	956	-	269,717
Receipts Over (Under) Disbursements	(9,884)	10,561	457	(19,173)	6,018	1,007	1,007	204	(556)	60	(10,299)
Cash Balance, January 1, 2005	27,698	2,614	4,717	19,676	3,085	2,438	2,443	603	826	1,893	65,993
Cash Balance, December 31, 2005	\$ 17,814	13,175	5,174	503	9,103	3,445	3,450	807	270	1,953	55,694

Note: This financial statement was prepared by the village's independent auditor and some classifications do not agree to financial information provided by the village.